

The following summarizes the documentation provided by SBC regarding the processes the ILECs and Advanced Services affiliates utilized to develop FDC:

The process employed by ASI, SNET, SWBT, Pacific Bell and Nevada Bell for developing FDC is documented in OP 125. Types of costs included in FDC include average wage rate, benefits, support assets, supervision and general/other expenses.

The process employed by AADS and the Ameritech ILECs for developing FDC rates uses a total expense base methodology. Overhead expenses are based on prior year actual recurring expenses for the following four specific expense groups: plant expenses, customer expenses, general support expenses and corporate expenses. Return on investment, depreciation, taxes and network administration expenses are included in expenses related to investment.

Prior year expenses are used to develop the current year overhead rates. Therefore, adjustments are made to the prior year expenses that are extraordinary in nature and are not likely to occur in the current year. Any adjustments to the overhead expenses are recovered in the subsequent year.

Selected the following services for which FDC studies were selected for testing of the actual development of FDC and types of costs included in the FDC:

- SWBT – Risk management and business communications services' FDC studies were reviewed. Noted that the types of costs included in FDC were hourly labor cost, inflation rate factors, commission assessment factors and affiliate loading for overhead costs.
- Pacific Bell – Claims and local service center process analysis services' FDC studies were reviewed. Noted that the types of costs included in FDC were hourly labor cost, inflation rate factors, commission assessment factors and affiliate loading for overhead costs.
- Nevada Bell – Regulatory and public affairs and strategic planning services' FDC studies were reviewed. Noted that the types of costs included in FDC were hourly labor cost, inflation rate factors, commission assessment factors and affiliate loading for overhead costs.
- SNET – Customer services local exchange carrier support and global sales support services' FDC studies were reviewed. Noted that the

types of costs included in FDC were hourly labor cost and loadings for benefits, facilities and corporate expenses.

- ASI – Lease of DSLAMs and Advanced Services Equipment lease FDC studies were reviewed. For the DSLAM lease, noted that the types of costs included in FDC were labor costs, equipment costs and loadings for shipping, sales tax, installation and maintenance. For the lease of Advanced Services Equipment, noted that the types of costs included in FDC were depreciation expense, cost of money and income tax expense.
- Ameritech – Real estate and mail services' FDC studies were reviewed. Noted that the types of costs included in FDC were rental costs, labor costs, mail costs, vehicle costs and system loading costs.
- AADS – Frame relay and remote office access manager ("ROAM") services' FDC studies were reviewed. Noted that the types of costs included in FDC were DS3 entrance facility, frame relay DS0, frame relay DS1 fractional speeds, frame relay DS1, permanent virtual circuit weighted average distribution of pre-merger frame relay circuits, equipment, transport, service location, help desk and enhanced billing and modem level monitoring reports, client implementation and project management.

9. For nontariffed services for which a PMP has not been established, or which are not subject to agreements filed with a public service commission, documented the process the ILECs and the Advanced Services affiliates follow to make an estimate of fair market value ("FMV"). Obtained documentation of the calculation of the estimate of FMV for two services provided by each ILEC to an Advanced Services affiliate and by each Advanced Services affiliate to an ILEC.

Noted, per review of the documentation obtained above, the processes the ILECs and the Advanced Services affiliates follow to make an estimate of FMV are as follows:

ASI, SWBT, Pacific Bell, Nevada Bell and SNET obtain an estimate of FMV from an independent third-party source for those services that would reasonably be expected to occur in an open market between unrelated parties. Generally the independent third party is a consultant that obtains price quotes from three to five unaffiliated companies nationwide which perform comparable services in the marketplace. For specific cases where services would not occur in the open market, the Affiliate Oversight Group would work with ASI to determine the methodology that would best provide a good faith estimate for the FMV for those services.

AADS's and Ameritech ILECs' policy is to obtain FMV for services provided between affiliates based on the specific nature of the service. Ameritech uses three different methods to represent a good faith effort in establishing market price. The first method is based on the sales price of the service to an outside third party. The second method compares fully distributed internal costs to prices charged by outside vendors for comparable services. The third method compares internal labor and benefit costs to professionally prepared industrial salary and benefits surveys.

Selected the following services for which SBC developed a good faith estimate of FMV and obtained documentation supporting the FMV determinations:

- SWBT – A good faith estimate of FMV was reviewed for risk management and business communications services. The development of FMV was determined through independent third-party studies, or in the case of claims and risk management services, the FMV was determined by using insurance companies to establish the “prevailing prices” from outside contractors of security and claims services.
- Nevada Bell – A good faith estimate of FMV was reviewed for regulatory and public affairs, and strategic planning services. The development of FMV was determined through independent third-party studies.
- Pacific Bell – A good faith estimate of FMV was reviewed for claims and local service center process analysis services. The development of FMV was determined through independent third-party studies, or in the case of claims and risk management services, the FMV was determined by using insurance companies to establish the “prevailing prices” from outside contractors of security and claims services.
- SNET – A good faith estimate of FMV was reviewed for customer services local exchange carrier support and global sales support services. The development of FMV was determined through independent third-party studies.
- Ameritech – A good faith estimate of FMV was reviewed for real estate and mail services. The development of FMV was determined through independent third-party studies.
- ASI – A good faith estimate of FMV was reviewed for the lease of DSLAMs and Advanced Services Equipment lease. The development of FMV was determined through independent third-party studies.

- AADS – A good faith estimate of FMV was reviewed for ROAM services. The development of FMV was based on comparable ROAM rates to other AADS retail customers. No other FMV studies have been developed for AADS services to ILECs.
10. Obtained a listing and dollar amounts of all services rendered by month by each ILEC to each Advanced Services affiliate during the Engagement Period and identified services made available to the Advanced Services affiliate that are not made available to third parties. For those services that are not made available to third parties, for the judgmental sample selected by the Users, compared unit charges to PMP, FDC or FMV, as appropriate, and noted that these amounts were recorded in the books of the ILECs in accordance with the affiliate transaction standards, except as listed below:
- Noted in the April 2000 billing from SNET to ASI for Temporary Projects, there was a spreadsheet formula calculation error in the billing support resulting in an overcharge to ASI of
 - Noted in the July 2000 billing from Pacific Bell to ASI for Network Planning and Engineering services, the unit price used for billing was , instead of the FDC rate of , resulting in an underbilling to ASI of
 - Noted in the July 2000 billing from SWBT to ASI for phone services billed under real estate services, the unit charge of \$35 per phone line was represented as based on comparable tariff rates, but did not agree to the documentation provided.
 - Noted in the November 2000 billing from Pacific Bell to ASI for design and construction support services, the FDC rate was incorrectly calculated at the FDC rate plus 1% rather than the FDC rate plus 10%, resulting in an underbilling to ASI of
 - SNET did not obtain a separate FMV study for the rental of certain property to ASI. Instead, SWBT FMV values for similar properties were utilized to estimate SNET's FMV. Using this methodology, SNET determined that FDC was greater than FMV and therefore utilized FDC to bill ASI.

Documented in Attachment A-5, for the sampled items, the amounts the Advanced Services affiliate has recorded for the services in its books of record and the amounts the Advanced Services affiliate has paid for the services to the ILECs. Payment was verified by tracing the amount billed for service to a payable account on the Advanced Services affiliate's general ledger and then noting such

payable account was cleared through the month-end cash settlement journal entry with the parent company.

11. Obtained a listing and dollar amounts of all services rendered by month to each ILEC by each Advanced Services affiliate during the Engagement Period. For the 12 items judgmentally selected by the Users, compared unit charges to PMP, FDC or FMV, as appropriate, and noted that expenses for these services were recorded in the books of the ILECs in accordance with the affiliate transaction standards. Noted no differences.

Documented in Attachment A-6, for the sampled items, the amounts that each ILEC has recorded for the sampled services in its books of record by tracing the amount billed for service to an ILEC's payable account and then noting settlement through the month-end cash journal entry with the parent company. Noted that one payment from SWBT to ASI was less than the amount billed.

12. Inquired and obtained representation from SBC that employee benefit plans (such as life insurance, health insurance, retirement plans) for ASI were maintained and funded by SBC Communications Inc. Noted that the costs of the plans were charged to ASI based on either specific cost assignment or an allocation methodology. SBC represented that "administrative service only" fees charged by vendors administering SBC's self-insured plans were incurred by SBC Services, Inc. and billed to ASI based on SBC Services, Inc.'s cost allocation methodology.

Noted that health and welfare benefit plans for AADS employees were maintained by the Ameritech Benefit Finance department, a division of Ameritech Services, Inc. SBC represented that health and welfare plan costs, except medical plan costs, were charged and tracked to each subsidiary based on actual costs incurred by that subsidiary's employees. Noted that AADS was one of several small subsidiaries that participated in a cost sharing pool for medical plan costs. Medical plan expenses were allocated among the pool participants based on active employee force counts.

Noted that employees of AADS participated in the Ameritech Management Pension Plan and Ameritech Savings Plan. These plans were administered by a third-party vendor. SBC represented that the annual costs of these plans were allocated to all subsidiaries based on payroll.

13. Inquired whether any affiliate, existing solely to provide services to members of the ILEC's corporate family (see 47 C.F.R., Sec. 32.27(c)), renders services to each Advanced Services affiliate and obtained a listing and amounts of services rendered by month by each affiliated administrative services organization to each Advanced Services affiliate during the Engagement Period and documented the methodology used to identify and cost these services. For the judgmental sample selected by the Users, obtained evidence that the services were being billed to

each Advanced Services affiliate and that such affiliate was paying for these services by tracing the amount billed for service to a payable account on the Advanced Services affiliate's general ledger and then noting such payable account was cleared through the month-end cash settlement journal entry with the parent company. Noted that for December 2000 the SBC Management Services, Inc. ("MSI") billing to AADS was revised from to ; obtained documentation of MSI's revised billing and AADS's payment of the revised amount to MSI.

Documented the methodology used to identify and cost services rendered by each affiliated administrative services organization to each Advanced Services affiliate and noted that all SBC administrative service organizations utilized a cost allocation system that effectively matches the benefits of services provided by SBC with the cost of those services. Noted that this is accomplished by following the methodology of directly charging expenses to ASI and/or SBC's other subsidiaries whenever possible. Noted that SBC's methodology states that costs which cannot be directly assigned are allocated based initially on direct causal (measure of use) allocation factors and secondly on indirect or general allocation factors, which are indicators of the general level of business activity underlying the expense.

14. Performed the following:

- a. Obtained the balance sheet as of the end of the Engagement Period for each Advanced Services affiliate.
- b. Obtained a listing of all fixed asset account balances, including capitalized software, and performed the required procedures as documented in Objective I, Procedure 7 above.
- c. Obtained a detailed listing of cumulative fixed asset adds (additions and transfers in) from each Advanced Services affiliate and performed the required procedures as documented in Objective I, Procedure 7.
- d. From the ASI listing obtained in step (c) above, for those items purchased or transferred from the ILECs during the Engagement Period, selected a random sample of 50 items. Obtained net book cost and fair market value for each item selected and noted that the appropriate value (greater of FMV or Net Book Value ("NBV")) was used in the asset-level journal entries used to record the transfer from the ILECs to ASI. Inquired and documented that the FMV of the assets transferred was determined by a third-party valuation using a combination of the Cost Approach, the Market (or Sales Comparison) Approach and the Income Approach. Using the valuation report, the ILEC compared the FMV provided by the valuation report to the calculated NBV. The ILEC calculated the

difference between FMV and NBV for individual assets whose FMV was greater than its NBV. The transferred values (greater of FMV or NBV) for the individual assets were aggregated at an asset-class level. Inspected these transactions and noted that they were recorded in the books of the ILECs at the higher of FMV or net book cost, as required under FCC Part 32.27 rules.

SBC represented that there were no assets transferred to AADS from any ILEC or affiliated company during the Engagement Period.

- e. From the listing obtained in step (c) above, noted that there were no assets purchased or transferred from other affiliates during the Engagement Period regardless of whether they originated from the ILEC to other affiliates.
 - f. For those items purchased or transferred from the ILECs, either directly or through another affiliate, during the Engagement Period, inquired and noted that all Advanced Services and supporting assets were transferred from the ILECs to the Advanced Services affiliates on an exclusive basis during the grace period as defined by the Merger Conditions.
15. Obtained a listing of all services rendered by each ILEC to each Advanced Services affiliate during the Engagement Period. Inquired and documented those services priced pursuant to Section 252(e). For a statistically valid sample of the Universal Service Order Codes ("USOCs") for these services, compared the price charged by the ILECs to the stated price in the Interconnection Agreement. Differences are documented in the table below. Inquired and documented that no services are provided by the ILECs to the Advanced Services affiliates pursuant to Section 252(f).

Table 3

State	USOC	Price Charged	Price Per Interconnection Agreement	Variance
Missouri	MYQXB	\$1.35	\$0.89	\$0.46
Oklahoma	ULPPX	9.00	9.01	(0.01)
Texas	MYQXB	1.06	0.61	0.45

16. Inquired and documented that SBC has represented that there was no transfer or sale of any part of the ILECs' Official Services network to an Advanced Services affiliate during the Engagement Period.
17. SBC has represented that the ILECs did not make adjustments to the interstate price cap indices for any facility that was either sold or transferred to an Advanced Services affiliate during the Engagement Period due to the following:

SBC represented that the ILECs did not perform an exogenous adjustment to its price caps for the sale or transfer of assets associated with the provisioning of advanced data services from the ILECs to the Advanced Services affiliates. The expense and investment associated with the Advanced Services when offered by the ILECs were excluded from the initial or current revenue requirement upon which access rates were based. Consequently, no adjustments to SBC's current price cap filings were necessary when the ILECs transferred the Advanced Services and associated expenses and equipment to the Advanced Services affiliates.

The services transferred to the Advanced Services affiliates were packet services, which from the inception of price caps in 1990 have been excluded from the revenue requirement. The exclusion of packet services from the price cap process is mandated by the FCC's initial price cap order issued on October 4, 1990. CC Docket No. 87-313, specifically paragraph 195, states "... packet-switched services were not subject to scrutiny as part of our investigation of LEC productivity, and should therefore be excluded."

Prior to the initiation of price caps, while SBC was under rate-based rate of return regulation in the interstate jurisdiction, packet-type services were not included in the revenue requirement that was used to establish interstate tariff rates. The expense and investment for packet-type services were not included in the development of the revenue requirement. Upon initiation of price caps, the expense and investment for packet-type services were also excluded from the revenue requirement that formed the base of the initial price cap plan.

18. Inquired and documented whether or not joint marketing is occurring between any Advanced Services affiliate and any ILEC by performing the following:
 - a. Noted that the following companies were engaged in joint marketing during the Engagement Period:

Table 4

ILEC	Advanced Services Affiliate	Description	Services Marketed
Nevada Bell	ASI	Joint Marketing and Sales	DSL, Frame Relay, Cell Relay, ATM
Pacific Bell	ASI	Business Communications Services	DSL, Frame Relay, Cell Relay, ATM
	ASI	Consumer Markets Group	DSL

ILEC	Advanced Services Affiliate	Description	Services Marketed
	ASI/AADS	Global Sales Support	DSL, Frame Relay, Cell Relay, ATM
SNET	ASI	Consumer/Business Marketing Services	DSL, Frame Relay, Cell Relay, ATM
	ASI/AADS	Global Sales Support	DSL, Frame Relay, Cell Relay, ATM
SWBT	ASI	Business Office Support	DSL, Frame Relay, Cell Relay, ATM
	ASI	Premises Sales Support	DSL, Frame Relay, Cell Relay, ATM
	ASI	Residential Service Support	DSL
	ASI/AADS	Global Sales Support	DSL, Frame Relay, Cell Relay, ATM

SBC represented that SWBT, Pacific Bell, Nevada Bell and SNET provided joint marketing services to ASI primarily through the residential (consumer) and business sales channels. Residential joint marketing was primarily conducted through call centers for DSL service. Business joint marketing was conducted through a combination of call centers, account representatives and outside sales agents. Business joint marketing included all Advanced Services offered by ASI.

SBC represented that the Global Markets group provided joint marketing services to both ASI and AADS. The Global Markets group was comprised of both ILEC and non-ILEC employees. The Global Markets group provided large corporate customers with multi-regional service requirements a single point-of-contact for the purchase of various services provided by the SBC family of companies, including services provided by the ILECs and the Advanced Services affiliates.

SBC represented that AADS operated as a structurally separate affiliate from the Ameritech ILECs prior to the Merger Closing Date and was subject to various state regulations that precluded certain Ameritech ILECs from jointly marketing AADS products. As such, SBC represented that Ameritech ILECs did not provide joint marketing services to AADS

during the Engagement Period. AADS receives joint marketing services from Ameritech Interactive Media Services ("AIMS").

AADS entered into Global Sales Support agreements with Pacific Bell, SNET and SWBT for joint marketing services provided by employees of those ILECs.

- b. Documented that joint marketing representatives are responsible for pre-qualification of availability of Advanced Services, sale of Advanced Services provided by the Advanced Services affiliates, transfer of the customer's Advanced Services order to ASI for completion and performance of follow-up customer care services as permitted under paragraphs 3a, 4b, 4i and 4l of the Merger Conditions.

Pacific Bell, Nevada Bell, SWBT and SNET:

Through inquiry and review of system architecture, noted that the ILEC joint marketing representatives utilized a combination of "customer negotiation and service order aggregation" systems in the Pacific Bell, Nevada Bell, SWBT and SNET regions when performing joint marketing activities for ASI. These "customer negotiation and service order aggregation" systems were Ease Access Sales Environment ("EASE"), Enhanced Simple Solutions System ("ESSS"), Facilities, Advanced Service Order System ("ASOS") and Complex Product Service Order System ("CPSOS"). Joint marketing representatives, utilizing one of the "customer negotiation or service order aggregation" systems above, accessed loop qualification information in the ILEC's databases through either Datagate (an interface available to unaffiliated carriers) or CORBA (an EDI protocol interface also available to unaffiliated carriers). Loop qualification requests are typically for validation/verification of the customer's address and telephone number, requests for customer's service record and requests for loop make-up information. The joint marketing representative uses such information, as well as information obtained from the customer, to continue the sales discussion with the customer. Once the joint marketing representative secures the customer's agreement to purchase an Advanced Service, the customer's information is transferred to ASI to complete and process the order.

Significant changes were made to the loop qualification systems and processes of each ILEC during the Engagement Period in conjunction with SBC's phased-in implementation of system enhancements documented in the Plan of Record required by Condition 3 of the Merger Conditions.

During the Engagement Period, SBC implemented a new joint region process called DSL LoopQual Middleware Service ("Middleware Service") that formats loop qualification requests and sends/receives

requests/responses to/from various back-end Operational Support Systems ("OSS"). The Middleware Service, which is accessed by joint marketing representatives and unaffiliated carriers through EDI CORBA, DataGate or Verigate, accesses loop qualification data from various back-end OSS. Prerequisites for this function are a wire center and validated service address from the Premises Information System ("PREMIS"). Through inquiry, review of system architecture and observation, identified the following loop qualification information that was available to joint marketing representatives and unaffiliated carriers through the Middleware Service as of the end of the Engagement Period:

Theoretical/design information – Theoretical/design information is maintained in the LoopQual Design Database ("Design Database") within the LoopQual Host system. The Middleware Service performs a lookup in the Design Database and returns loop make-up based on plan data for the longest loop in the distribution area. The Design Database is loaded by wire center with information from other ILEC databases and returns the following theoretical information to the requestor when available in the database: overall qualification status (red, yellow, green), wire center code and design cable gauge make-up information.

Actual information – Requests for actual loop qualification information from the ILECs' Loop Facility Assignments & Control Systems ("LFACS") could be made through the Middleware Service during the Engagement Period. Additionally, requests to Engineering to perform a manual loop qualification could be made through the Middleware Service during the Engagement Period. Actual information provided to joint marketing representatives and unaffiliated carriers through this process throughout the Engagement Period included: loop length by segment, length by gauge, 26 gauge equivalent loop length, presence of load coils, quantity of load coils, presence of bridge taps, length of bridge taps, presence of pair gain/DLC and qualification status of loop. SBC represented that loop make-up information as documented in the March 31, 2000 Plan of Record was made available to joint marketing representatives and unaffiliated carriers consistent with the Plan of Record Schedule.

Noted through inquiry and observation that unaffiliated entities had access to the same systems and type of information during the Engagement Period.

- c. Inquired and documented the procedures being followed by the ILEC to bill the Advanced Services affiliate for services rendered and noted that the ILECs charge the Advanced Services affiliates for joint marketing through affiliate agreements. Noted that the agreements include both

xDSL and non-xDSL services sold by the ILECs on behalf of the Advanced Services affiliates. The billing for these services is detailed on the monthly affiliate bill rendered by the ILECs to the Advanced Services affiliates and includes direct charging of commission payments made to outside sales agents.

Documented SBC's representation of the following controls that were in place relating to the development of the monthly affiliate billing for joint marketing from the ILECs to the Advanced Services affiliates.

Joint Marketing Affiliate Billing Controls

The ILECs have established a unique responsibility code for ASI. This code is used to identify and track joint marketing efforts performed for ASI by service representatives, account executives, sales support managers and any other employees providing joint marketing services to the Advanced Services affiliates. Employees, other than service representatives, involved in joint marketing activities were instructed to charge time on a quarter-hourly basis to the Advanced Services affiliates through the automated time reporting systems. "Time and motion" studies were performed for service representatives to validate the time charged to the entities receiving joint marketing. Monthly reports of agent commissions were compiled which support the commission charges through to the Advanced Services affiliates. SBC represented that the contract administrator received monthly reports mentioned above, summarized the information, performed a reasonableness check based on prior month activity and submitted it to the affiliate billing department for processing.

- d. Inspected the ILEC bills to the Advanced Services affiliates for joint marketing for the following months:
- SWBT to ASI – May 2000 and October 2000
 - SWBT to AADS – October 2000 and December 2000
 - Pacific Bell to ASI – May 2000 and October 2000
 - Pacific Bell to AADS – October 2000 and December 2000
 - Nevada Bell to ASI – September 2000 and November 2000
 - SNET to ASI – June 2000 and November 2000
 - SNET to AADS – June 2000 and November 2000

Obtained copies of source documentation for the bills listed above that shows how the ILEC tracks or calculates the amounts billed to the Advanced Services affiliates for joint marketing and traced the billed amounts to the source documentation. Noted the following exceptions:

- SWBT to ASI, May 2000 and October 2000 for Business Office Support services, noted the following:
 - hours in May were billed to ASI at a rate of per hour. Documentation obtained indicates this rate should have been per hour, resulting in an overbilling to ASI of
 - hours in May and hours in October were billed to ASI at a rate of per hour. Documentation obtained indicates this rate should have been per hour, resulting in an underbilling to ASI of
- SWBT to ASI, May 2000 for Residential Sales Support, noted that the billed amounts of were determined to be charges related to another affiliate.
- Pacific Bell to ASI, May 2000 for Business Communications Support, noted that the number of units billed did not agree to the supporting documentation. Noted that this error was corrected in ASI's June 2000 billing from Pacific Bell.
- Pacific Bell to ASI, October 2000 for Global Sales Support, noted that a billing rate of was used for one classification of service representatives. Noted that this billing error was corrected in ASI's December 2000 billing from Pacific Bell.
- Pacific Bell to AADS, October 2000 for Global Sales Support, noted that a billing rate of was used for one classification of service representatives. Noted that this billing error was corrected in AADS's December 2000 billing from Pacific Bell.
- Nevada Bell to ASI, August 2000 for Joint Marketing Support, noted that the number of units billed for DSL and Frame Relay orders did not agree to supporting documentation.
- Noted that prior month billing adjustments appeared on 11 of the 21 monthly billings tested.

For the joint marketing billings tested above, payment was verified by tracing the amount billed for the service to a payable account on the Advanced Services affiliate's general ledger and then noting such payable account was cleared through the month-end cash settlement journal entry with the parent company.

- e. Inspected the SBC Internet web site and noted that joint marketing is posted to the web site as an affiliate transaction at:

<http://www.sbc.com/PublicAffairs/PublicPolicy/Regulatory>

Objective VII. Determine whether or not the ILECs have discriminated between the separate Advanced Services affiliates and any other entity in the provision or procurement of goods, services, facilities and information, or the establishment of standards.

1. Obtained the ILECs' written procurement procedures, practices and policies for services and goods provided by outside sources, including by each Advanced Services affiliate. Noted no stated purchasing preferences towards affiliates in the ILECs' procedures. Noted that, in order to purchase goods or services from an affiliate, there are procedures the ILECs must follow to require that they are in compliance with Section 272 of the Telecommunications Act of 1996.

Noted that OP No. 6 – SBC Supplier Contracting is the Company's primary guidance for procurement practices. The procurement process, including the bidding and vendor qualification/selection process, is performed by SBC Services, Inc. (an administrative affiliate) on behalf of all affiliated SBC entities, including the ILECs. Section 4 of OP 6 details the supplier/contractor selection process. This section documents the dissemination process for RFPs and the absence of purchasing preferences favoring the Advanced Services affiliates.

Documented that the ILECs' bidding process, the selection process and how the ILECs disseminate RFPs to affiliates and third parties are part of a six-step contracting process as follows:

- Step 1: Needs Assessment – initial identification of the needs, project scope and the start of the documentation.
- Step 2: Supplier Search – identification of potential suppliers to meet client and company requirements.
- Step 3: Competitive Analysis – determination of quote methodology; competitive quote process or direct awards; and development of decision matrix to be used to evaluate responses.
- Step 4: Supplier Selection and Contract Negotiation – evaluation of supplier responses to RFPs, quotation and information and negotiation of contracts.
- Step 5: Contract Approval and Documentation – documentation of all required contract documents and procedures required for contract approval including financial analysis summary, project scope documents, financial risk/dependency letter, legal approvals and executed documents.
- Step 6: Contract Implementation and Administration – implementation and administration of the agreement upon execution by both parties.

Also noted that Section 10.502 of OP 6 includes a description of the requirements and restrictions applicable to transactions with the Advanced Services affiliates as specified in Section 272 of the Telecommunications Act of 1996. As any procurement activity by an ILEC from an Advanced Services affiliate would result in an affiliate transaction, OP 6 refers to OP 125 – “*Nontariffed Activities and Affiliate Transactions*,” for complete instructions on affiliate transactions. SBC has established written controls to require any ILEC purchase from an Advanced Services affiliate comply with Section 272, including the ILECs’ nondiscriminatory procurement obligations. Noted that any nontariffed affiliate transaction, including an ILEC procurement from an Advanced Services affiliate, must be approved by the Affiliate Oversight Group prior to the purchase. Also noted that the approval process includes a review of the ILECs’ nondiscrimination obligation.

2. Inquired of the Advanced Services affiliates and described the process that an Advanced Services affiliate must follow to request service.

Noted that for services purchased under Interconnection Agreements or tariffs, the Advanced Services affiliate requests services directly from the ILEC department that provides the service by submitting a Local Service Request (“LSR”) or Access Service Request (“ASR”) to the ILECs. For collocation services purchased under Interconnection Agreements, the Advanced Services affiliate uses the application forms and process described in Objective VII, Procedure 11. Advanced Services affiliates order voice and exchange services by contacting the ILEC Business Office or the Business Communications Services Account Manager. No approval process is required for any of the above requests as the rates at which these services are provided are defined in the Interconnection Agreements or tariffs. For billing and collection services, the Advanced Services affiliates request services through their CLEC account manager.

Noted that for services provided under other written agreements, Advanced Services affiliates request services through their CLEC account manager, which in turn submits the request to the Affiliate Oversight Group. A contract process is required for the provision of services. The process for the provision of services is as follows:

- Step 1: The Advanced Services affiliate requests services under Interconnection Agreements and tariffs directly from the ILEC department that provides the service. For written agreements, the request for service is requested through the CLEC account manager, which in turn submits the request to the Affiliate Oversight Group.
- Step 2: The ILEC determines whether a service can be offered to the Advanced Services affiliate. The ILEC estimates the recurring and non-recurring

labor, expense and capital required to provide the service to the Advanced Services affiliate.

- Step 3: New contract documents are created or existing documents are modified and sent for legal review if required.
- Step 4: Cost studies are performed.
- Step 5: If the service requires a new service agreement and/or a new schedule and pricing addendum, then a legal review and approval is required.
- Step 6: Affiliate Oversight Group makes the pricing decision, reviews and approves service agreement.
- Step 7: Agreement is signed by the ILEC and submitted to the Advanced Services affiliate for approval.
- Step 8: The Advanced Services affiliate approves and signs agreement.
- Step 9: Copies of the signed agreement are distributed to the ILEC, Advanced Services affiliate, legal and the Affiliate Oversight Group.
- Step 10: The ILEC is responsible and must ensure that accurate quantities of service are reported and billed each month.

Noted that the Affiliate Oversight Group reviews and approves all new Advanced Services affiliate service requests and agreements for compliance with Section 272 of the Telecommunications Act of 1996.

- 3. Inquired of the ILECs and described the process that an unaffiliated entity must follow to request service and noted that the unaffiliated entity follows the same process as Advanced Services affiliates as described in Procedure 2 above.
- 4. Obtained representation from SBC that there were no ILEC procurement awards to the Advanced Services affiliates during the Engagement Period.
- 5. Obtained a list of all equipment (including software), furniture, fixtures, services, facilities and customer network services information (e.g., loop makeup information and subscriber list information), excluding CPNI as defined in Section 222(f)(1) of the Communications Act of 1934, as amended, made available to each Advanced Services affiliate by the ILECs, excluding services and facilities provided pursuant to tariffs or Interconnection Agreements. For a statistically valid sample of 60 items randomly selected, inquired and obtained

copies of the Internet postings by the ILECs and noted that the unaffiliated entities were informed of the above-mentioned transactions through public disclosure at:

<http://www.sbc.com/PublicAffairs/PublicPolicy/Regulatory>

6. Obtained a list from the ILECs of all unaffiliated providers (CLECs) of Advanced Services who purchased the same goods, services, facilities and customer network information (excluding CPNI and services purchased under Interconnection Agreements) from the ILECs and the Advanced Services affiliates during the Engagement Period. From the list, randomly selected 10 CLECs and randomly selected the following months for the comparison: July 2000 for Pacific Bell and Nevada Bell; September 2000 for Ameritech; and October 2000 for SWBT. For the months selected, obtained billing summaries from the ILECs for each of the selected CLECs and the Advanced Services affiliates. From the billing summaries, identified a total of 100 comparable USOCs purchased by both the CLECs and the Advanced Services affiliates and compared the rates, terms and conditions charged to each. Attachment A-7 documents the rates charged to the CLECs and Advanced Services affiliates for comparable services selected.
7. Documented that the ILECs' process for disseminating information pursuant to CC Docket No. 96-149, *First Report and Order*, Para. 16, about network changes, the establishment or adoption of new network standards and the availability of new network services to each Advanced Services affiliate and to unaffiliated entities is centralized with the SBC Network Services organization. The Network Services organization is made up of employees from SBC Management Services, Inc. Network Services maintains an internal Intranet page that documents the business requirements, criteria and process flows for disseminating network standards. SBC uses Internet postings and Accessible Letters to notify unaffiliated entities, including the Advanced Services affiliates. SBC's procedures address dissemination of information to both the Advanced Services affiliates and unaffiliated entities. The documentation supporting the ILECs' process for notification of network changes contains no distinction between notification processes for Advanced Services affiliates and unaffiliated entities.

Once a project plan is reviewed, a determination is made by Legal and Regulatory as to whether notice is required. If notice is required, the project is control numbered, then determined as either short-term or long-term. Then the notification document is prepared and the project is forwarded on to the Facility Equipment Engineer for preparation of the project package and to the Engineering Single Point of Contact ("SPOC"). The Engineering SPOC reviews the notification document for compliance and then forwards the notification document to the regulatory department. The regulatory department then files the notification document for all long-term projects with the FCC. The regulatory department informs all telephone exchange providers of short-term projects by mail, then files the notification document for short-term projects with the FCC

after five days. These notices are posted on the SBC web site at <http://www.sbc.com/PublicAffairs>. This section is organized by SBC network disclosures, then by each ILEC.

Obtained a list of all network changes, network standards changes and changes in available services. Selected at random three changes and documented the results as follows:

- An initial Installation of Tellabs Titan 5500 3/1 Digital Cross-Connect System was disseminated on November 29, 2000 through an Internet posting.
 - A SONET rate digital cross-connect feature change was disseminated on November 10, 2000 through an Internet posting.
 - A rehome of GTE End Offices-Access Service was disseminated on July 31, 2000 through an Internet posting.
8. Obtained and inspected the ILECs' and Advanced Services affiliates' customer service representative scripts for inbound calls establishing new services, or moving to a new location. In addition, obtained and inspected the written content on the ILECs' web site for on-line ordering of new service.
9. Obtained a list of all call centers for each ILEC. Upon review of the list, noted that Nevada Bell had no call centers. From the list, judgmentally selected two call centers per ILEC. Observed by listening in to a sample of 42 service representatives in 16 separate locations of the ILECs and Advanced Services affiliates responding to inbound callers and outbound callers to whom the sales representatives attempt to market the Advanced Services of the Advanced Services affiliates. The call centers visited included Global Markets centers, Consumer Markets centers and Business Communications Services centers. SBC represented that only the Consumer Markets centers routinely took inbound calls from customers requesting service. The Global Markets centers and Business Communications Services centers were staffed by representatives that occasionally received service requests by phone, but spent most of their time assisting customers on various issues outside of the call center. Consequently, fewer than five representatives may have been observed in these locations.

Documented below the messages conveyed during the observations. If an order was taken for an Advanced Service by the ILECs' service representative, noted and documented that the service representative referred the information necessary for placement of the order to the Advanced Services affiliate.

Of the calls monitored, noted 55 calls which related to Advanced Services, specifically DSL service. No exceptions to the procedures outlined in the Merger Conditions, paragraph 4b, were noted. Topics of these calls were as follows:

- Customers placed DSL orders, orders were forwarded on to Advanced Services affiliate for processing
- Inquired about DSL, but service not available in customer area
- Inquired about DSL, engineering to check on availability of service
- DSL installation or order status inquiries
- Inquiries about DSL, no service ordered during call
- DSL hardware inquiry
- Cancellation of DSL service
- Internet questions related to DSL service

In addition, listened in on phone calls that were not related to Advanced Services. The primary topics of the non-Advanced Services calls were billing and payment inquiries, cancellation or change of service, service requests for new or existing service and inquiries about special service options (caller ID, voicemail, call forwarding, etc.).

10. Where Advanced Services orders should be placed by a separate Advanced Services affiliate as defined by the Merger Conditions (see Merger Conditions, Paragraphs 6a, 6b and 6d), observed the processing of service orders by the Advanced Services affiliates. Inquired and documented that the Advanced Services affiliates use the same interfaces for placing Advanced Services orders with the ILECs that are made available to unaffiliated providers of Advanced Services. Both ASI and AADS place orders with the ILECs through an Electronic Data Interface (EDI – using CORBA protocol standards). Inquired and documented that the separate Advanced Services affiliates and unaffiliated providers of Advanced Services had access to the same customer specific information for pre-ordering and ordering, other than credit history, that is available to the ILECs, through the same interfaces that are made available to the ILECs.

11. Collocation Steps

- a. Inquired and documented that the Advanced Services affiliates have filed collocation applications during the Engagement Period. Documented that ASI and AADS filed collocation applications. SBC represented that the Advanced Services affiliates filed collocation applications during the Engagement Period. Obtained a listing of all Advanced Services affiliate collocation applications filed during the Engagement Period. From this listing of collocation applications, randomly selected 25 collocation applications for each Advanced Services affiliate and documented, as shown in Table 5

below, the location (by common language location identifier ("CLLF") including address), type and date of the sampled applications.

Table 5

Sampled Collocation Applications Filed by Advanced Services Affiliates

Advanced Services Affiliate	Application Date	CLLI	Address	Application Type
ASI	April 26, 2000	WCHTKSCE		
ASI	May 5, 2000	BRBNCA11		
ASI	May 2, 2000	KSCYMO23		
ASI	May 2, 2000	FTWOTXED		
ASI	May 5, 2000	SNFCCA21		
ASI	May 5, 2000	WDLCA11		
ASI	May 8, 2000	LSANCA13		
ASI	May 8, 2000	SMFRCT02		
ASI	May 8, 2000	GLBYCT00		
ASI	May 8, 2000	SNMACA11		
ASI	May 9, 2000	NTCYCA11		
ASI	May 12, 2000	LSANCA01		
ASI	May 22, 2000	LSANCA09		
ASI	June 1, 2000	TBLTXTB		
ASI	July 27, 2000	SAGSCA11		
ASI	August 7, 2000	HSTNTXAL		
ASI	August 21, 2000	IGNCCA12		
ASI	October 18, 2000	OKCYOKCE		
ASI	November 7, 2000	HSTNTXBU		
ASI	November 29, 2000	BYVLARPO		
ASI	December 4, 2000	PRSSKSWA		
ASI	December 18, 2000	HSTNTXWE		
ASI	December 19, 2000	BRVLOKFE		
ASI	December 26, 2000	DLLSTXMS		
ASI	December 27, 2000	STLSMO07		
AADS	February 17, 2000	FRTNMIMN		
AADS	February 17, 2000	WLNGILWG		
AADS	March 22, 2000	MUNCIN01		
AADS	April 27, 2000	CHCGILMO		
AADS	July 21, 2000	CLEVOH63		
AADS	July 21, 2000	DTRTMIMD		
AADS	October 30, 2000	MNTROH25		
AADS	July 12, 2000	YPSLMIMN		

Advanced Services Affiliate	Application Date	CLLI	Address	Application Type
AADS	October 13, 2000	GNBYWI11		
AADS	October 13, 2000	WOTNOH88		
AADS	October 13, 2000	LNPKMIAT		
AADS	October 19, 2000	DTRTMIVW		
AADS	October 19, 2000	FLNTMINR		
AADS	October 19, 2000	CHCGLED		
AADS	October 27, 2000	AKRNOH86		
AADS	October 27, 2000	FNDYOH42		
AADS	October 27, 2000	ELNSMIMN		
AADS	October 30, 2000	NCTNOH49		
AADS	October 30, 2000	PNVLOH35		
AADS	October 30, 2000	PRBGOH66		
AADS	October 30, 2000	RKRVOH33		
AADS	October 30, 2000	SECLOH38		
AADS	November 1, 2000	MNFLWI32		
AADS	November 1, 2000	MDSNWI15		
AADS	November 1, 2000	APPLWI01		

- b. Inquired and documented that ASI and AADS placed equipment within ILEC central offices during the Engagement Period. Obtained a list of all central office locations where ASI and AADS placed equipment during the Engagement Period.
- c. Compared the listing of locations where Advanced Services Equipment was placed by ASI and AADS to the listing of collocation applications filed by ASI and AADS during the Engagement Period and identified collocation applications for locations.

For the remaining locations with no collocation applications identified, locations were compared to applications by the CLLI code, in the following sequence:

- Compared to the listing of locations with transferred equipment, as obtained in Objective VII, Procedure 11 (b) above; then,
- Compared to a listing of locations with transitional equipment placements, as described below.

For locations, equipment was transferred by the ILEC to the Advanced Services affiliate. For locations, ASI or AADS equipment placement was

planned prior to February 29, 2000, and therefore SBC represented that this equipment was subject to the transitional mechanisms contained in subparagraphs I(3)(c)(3), I(3)(d), I(3)(e), I(4), I(4)(a)(3), I(4)(n)(4), I(6) and I(6)(g) in the Merger Conditions.

- d. Obtained a copy of the November 19, 1999 "Deployment Plan" ("Plan"). SBC represented that no subsequent changes were made to the Plan during the Engagement Period. Documented the central offices where SBC indicated that Advanced Services Equipment had been placed during the Engagement Period. Noted that there were locations listed in the Plan. Compared the locations in the Plan to the listing of locations obtained in Objective VII, Procedure 11b above and noted that locations in the Plan had equipment placements during the Engagement Period.
- e. For the sample of 25 ASI and 25 AADS collocation applications selected in Objective VII, Procedure 11a above, determined that all applicable nonrecurring charges were paid for placing the equipment into service for 23 of the ASI applications and 23 of the AADS applications. For two AADS applications and one ASI application, noted the amounts were not paid because the ILEC had not yet billed the Advanced Services affiliate. For one ASI application, noted that ASI's records indicate payment, but the ILEC was unable to provide support that the amount had been recorded in the ILEC's books of account.
- f. Documented the processes used by each Advanced Services affiliate during the Engagement Period to arrange and negotiate for collocation space with the ILECs. Compared these processes with those made available to unaffiliated telecommunications carriers. Noted that the processes used by the affiliates to obtain collocation are the same as those used by all other CLECs, except for the transition period as it related to ASI, which ended April 5, 2000. Noted the collocation processes used by AADS for the Engagement Period, and for ASI for the period April 5, 2000 through December 31, 2000, were as follows:

Advanced Services Collocation Processes

The Advanced Services affiliate's planning team determines a need for collocation and then completes an equipment request or a "planning trigger." Next, a collocation application is completed and forwarded to the Advanced Services affiliate's collocation group. The Advanced Services affiliate's collocation group reviews the application and sends the finalized application to the ILEC's Collocation Services Center ("CSC"). The ILEC then determines space availability, costs and critical dates associated with the collocation request. If space is not available, the ILEC responds to

the Advanced Services affiliate's collocation group which then forwards this information on to the Advanced Services engineering and planning teams to work on the possibility of alternate arrangements, which would be requested through a revised collocation application. If space is available, the ILEC responds to the Advanced Services affiliate's collocation group with space notification and prepares the quote for the arrangement. Once the Advanced Services affiliate's collocation group receives the quote, it passes information on to the Advanced Services affiliate's engineering group whose task is to review the quote for reasonableness and to accept or reject the quote. The decision is returned to the Advanced Services affiliate's collocation group which passes a quote acceptance on to the ILEC or attempts to resolve any issues that might have caused the Advanced Services affiliate's engineering group to reject the quote. This acceptance is forwarded to the ILEC along with the approved application and a check. The ILEC then begins space preparation and notifies the Advanced Services affiliate once the space preparation is complete. The Advanced Services affiliate then formally accepts the space and begins its installation process.

Prior to April 5, 2000, in certain instances ASI did not file applications with the ILEC if the project was planned prior to February 29, 2000. SBC's understanding is set forth in SBC's letter dated February 15, 2000 (letter from Mr. Michael Kellogg on behalf of SBC to Ms. Carol Matthey of the FCC), and is based on the collocation transition mechanisms contained in subparagraphs I(3)(c)(3), I(3)(d), I(3)(e), I(4), I(4)(a)(3), I(4)(n)(4), I(6) and I(6)(g) in the Merger Conditions.

- g. Obtained a list of all requests or arrangements made for collocation submitted by the Advanced Services affiliates during the Engagement Period where the request/arrangement was made using a different process from that made available to the unaffiliated telecommunications carriers.

Objective VIII. Determine whether or not the ILECs, and Advanced Services affiliates subject to Section 251(c) of the Act, have fulfilled requests from unaffiliated entities for access to facilities and unbundled network elements within a period no longer than the period in which they provide such access to themselves or their affiliates.

1. Inquired and documented that the ILECs were reporting, for each state, the performance measurements for the Advanced Services affiliates as required by Paragraph 10 in the Merger Conditions. Noted by inquiry these measurements were reported on a separate basis from the CLEC information. The performance measures were posted on the CLEC web site at <https://clec.sbc.com>. Each CLEC is provided a user I.D. and password to enable them access to the aggregate performance measurements and their individual performance measurements. In addition, the FCC is provided access to the web site in order to review the performance measures required under Paragraph 10 in the Merger Conditions. SBC represented that certain performance measurements required under Paragraph 10 in the Merger Conditions contained errors that were either restated or will be corrected on a prospective basis.

Obtained a list of the Advanced Services provided, by state, by the Advanced Services affiliates and the ILECs during the Engagement Period.

ASI provided the following Advanced Services during the Engagement Period in the following states:

Table 6

Product	CA	NV	CT	TX	MO	OK	KS	AR
ADSL	YES	YES	YES	YES	YES	YES	YES	YES
Frame Relay	YES	YES	YES	YES	YES	YES	YES	YES
ATM	YES	YES	YES	YES	YES	YES	YES	YES
Native Lan +	YES	NO	YES	YES	YES	NO	YES	NO
Broadband Educational Video Service	NO	NO	NO	YES	YES	NO	YES	NO
Customer Network Management	YES	NO	NO	YES	YES	YES	YES	YES
Switched Multimegabit Data Service	YES	NO	NO	NO	NO	NO	NO	NO
VPOP-DAS	YES	NO	NO	NO	YES	YES	YES	NO

AADS provided the following Advanced Services during the Engagement Period in the following states:

Table 7

Product	IL	IN	MI	OH	WI
ADSL	YES	NO	YES	YES	YES
Frame Relay	YES	YES	YES	YES	YES
ATM	YES	YES	YES	YES	YES
Switched Multimegabit Data Service	YES	YES	YES	NO	NO

SWBT, Pacific Bell, Nevada Bell and SNET provided the following Advanced Services in the former SBC States during the Engagement Period:

ADSL services

Frame Relay services

Cell Relay services

Virtual Point of Presence – Digital Access Switching (“VPOP-DAS”) – not provided in Connecticut and Nevada

In the former Ameritech States, the only Advanced Service provided by the ILECs during the Engagement Period was frame relay services.

The Advanced Services affiliates did not provide any voice grade services in any state during the Engagement Period.

2. With respect to the measures identified in Procedure 1 above, obtained the data reported for the ILECs, the CLECs (aggregated without the affiliates) and the Advanced Services affiliates for each month and for each state. Compared and documented the results for those measurements where the CLEC results do not demonstrate parity or benchmark performance. For the measurements that did not demonstrate parity or benchmark performance for three or more consecutive months, documented in a matrix at Attachment A-8-A the service intervals for the ILECs, the CLECs and the Advanced Services affiliates. Inquired and noted what action has been taken to provide parity or benchmark performance in the future at Attachment A-8-B.
3. Inquired and documented how the ILECs provide individual CLECs with performance measures for the telephone exchange service and exchange access service per Sec. 272(e)(1) for the ILECs and the Advanced Services affiliates. The Section 272(e)(1) performance measures are calculated and validated by the ILEC for SBC and its affiliates and nonaffiliates. CLECs, Advanced Services affiliates and the FCC must contact the ILEC to request performance measurement results for SBC and its affiliates. The results for SBC and its affiliates are provided to CLECs upon request.